

# TOWN OF COTTON VALLEY



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ADVISORY SERVICES REPORT  
ISSUED JANUARY 16, 2008

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**LEGISLATIVE AUDITOR  
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STEVE J. THERIOT, CPA

**DIRECTOR OF ADVISORY SERVICES**

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STEVE J. THERIOT, CPA  
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January 16, 2008

**THE HONORABLE KEITH CHANLER, MAYOR,**  
**AND MEMBERS OF THE BOARD OF ALDERMEN**  
Cotton Valley, Louisiana

We visited the Town of Cotton Valley (town) because of your continuing disregard of the town's reporting responsibilities under state law. For six consecutive years, you have failed to ensure that the town's audit was completed and the report submitted to my office within six months of the close of the town's fiscal year, as required by Louisiana law (Louisiana Revised Statute 24:513).

My staff applied our *Checklist of Best Practices in Government* in providing advisory services for the financial operations of the town. In addition, we reviewed your resolution of the audit findings reported in the town's December 31, 2005, audited financial statements. Attachment I contains our recommendations resulting from our assessment of the financial procedures and practices of the town's business department and Attachment II provides the status of the December 31, 2005, audit findings. Management's response is presented in Appendix A.

Our recommendations are intended to (1) improve controls over the town's financial operations; (2) provide you with advice in implementing good business practices; and (3) ensure the town's compliance with state laws, including reporting responsibilities to my office.

This assessment is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards; therefore, we are not offering an opinion on the town's financial statements or system of internal control nor assurance as to compliance with laws and regulations.

Respectfully submitted,

Steve J. Theriot, CPA  
Legislative Auditor

MDC:ESS:JSI:dl

## Recommendations

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The following are the recommendations resulting from our advisory services. The recommendations are presented to improve the system of controls that provide for the safeguarding, managing, and accounting for assets of the town and to ensure compliance with applicable state laws. However, management (mayor and aldermen) of the town should consider the costs of implementing these recommendations compared to the benefits they will provide. For those recommendations not implemented, management should be aware of the risks of not implementing such controls.

Management's response to the recommendations is included in Appendix A.

### **Failure to Comply With Louisiana Audit Law**

For each of the previous six years, the town's annual audit report was not filed with my office within six months of the close of the town's fiscal year as required by Louisiana law [Louisiana Revised Statute (R.S.) 24:513]. The following table summarizes the delinquent status of the town's previous six audits.

<b>Year Ending</b>	<b>Audit Report Statutory Due Date</b>	<b>Date Audit Report Received by Legislative Auditor</b>	<b>Number of Days Delinquent</b>
December 31, 2001	June 30, 2002	March 31, 2003	274
December 31, 2002	June 30, 2003	February 2, 2004	217
December 31, 2003	June 30, 2004	May 16, 2005	320
December 31, 2004	June 30, 2005	April 20, 2006	294
December 31, 2005	June 30, 2006	February 9, 2007	224
December 31, 2006	June 30, 2007	Not Received as of January 16, 2008	200

During our visit to the town (October 8-11, 2007), we assisted the mayor and clerk in developing the following tasks that needed to be done to expedite the town's 2006 audit and to ensure the timely completion and filing of the 2007 audit report.

<b>Tasks - 2006 Audit</b>	<b>Status on December 20, 2007</b>
1. Need to process all accounting transactions for the 2006 year and prepare a general ledger for the year ending December 31, 2006	All accounting data has been submitted to the town's contract accountant and a general ledger has been prepared and received.
2. Need to make final payment to the town's auditor for the 2005 audit work	The town has paid the auditor in full.
3. Contact the town's auditor to establish target dates for starting and completing the 2006 audit	Dates have not been established.
4. Submit the delinquent 2006 audit report to the Legislative Auditor	The audit report will be submitted no later than February 28, 2008.

Tasks - 2007 Audit	Status on December 20, 2007
1. Need to process all accounting transactions for the 2007 year and prepare a general ledger for the year ending December 31, 2007	Accounting data for the period from January 1, 2007, through December 31, 2007, will be submitted to the contract accountant on January 3, 2008, for processing. A general ledger is expected to be received from the accountant no later than March 31, 2008.
2. Need to make final payment to the town's auditor for the 2006 audit work	The town will pay the auditor in full no later than April 30, 2008.
3. Engage an auditor for the 2007 audit and establish target dates for starting and completing the audit	The town expects the 2007 audit to start in May 2008, and the audit report to be received no later than June 30, 2008.
4. Submit the 2007 audit report to the Legislative Auditor no later than June 30, 2008 (statutory deadline date)	In accordance with state law, the town will submit the 2007 audit report no later than June 30, 2008.

**Recommendation:** The mayor and aldermen need to actively monitor and manage the above plans to expedite the 2006 audit and ensure the timely filing of the 2007 audit report. We remind you that failure to take appropriate action in the future to comply with reporting responsibilities under the state audit law can subject you to fines and penalties.

### **Lack of Financial Management**

During our visit to the town, we determined there are significant deficiencies in the overall financial management of the town. Without an effective financial management system, the mayor and board of aldermen cannot effectively exercise its fiduciary responsibilities of managing the town's finances.

**Recommendation:**

1. **Need Realistic Budget** - The mayor and town clerk should develop a realistic annual budget. We were informed that the current 2007 budget is identical to the prior 2006 budget and that it contains certain revenue estimates known to be unrealistic. Although the budget is a forecast of anticipated revenues and expenditures, it should represent an accurate expectation of the town's activities. The budget should be reviewed monthly and amended to reflect current realities.
2. **Need Monthly Financial Statements** - The mayor should engage the contract accountant to begin preparing monthly financial statements. Without such financial information, management cannot effectively exercise its fiduciary responsibilities of managing the town. Each month, the mayor and board of aldermen should be presented with timely, accurate, and complete financial statements and budget comparisons for all funds of the town, including warnings of any corrective action needed.

3. **Need Timely Processing of Accounting Transactions** - Each month, the town clerk should provide the accounting records to the contract accountant to ensure timely processing of transactions and timely receipt of a monthly general ledger and financial statement. This also helps ensure that the appropriate records are available for the annual audit to be conducted on a timely basis.
4. **Need Written Plan for Making Spending Cuts** - Management of the town should have a written plan for making both short- and long-term spending cuts to ensure it will eliminate the deficit in the General Fund and, in the future, operate within its available funding and maintain a reasonable unreserved/undesignated fund balance for the General Fund. The plan should be monitored, at least quarterly, to assess whether the town is on target with the plan.

Note: The last financial statement prepared on the town was as of December 31, 2005, (two years ago) and reported a deficit fund balance of (\$55,054) in the General Fund. Although the current status of the deficit is unknown because of the accounting records not being up-to-date, we were informed that the town is having difficulty in paying some of its bills.

5. **Need Controls Over Purchasing and Disbursements** - To strengthen accountability and controls over purchasing and disbursements, the town should implement a purchase order system. Also, the mayor should document (initial) his review and approval on the vendor invoices and the town should prohibit the use of the manual signature stamp and require that all checks have “live” signatures.

Under a basic purchase order system, there is certain documentation that is required before payment is made for services provided or materials received. Documentation should include the following:

- Purchase requisition - submitted by the department requesting the purchase and approved by a designated town official
- Purchase order - prepared by the clerk who verifies that funds are budgeted and available and that the purchase is in compliance with the public bid law (approved by a designated town official)
- Receiving report - evidence from the town employee receiving the materials/supplies that they were actually received
- Invoice - evidence from the vendor of the services or materials provided
- Approval of invoice - verification by the approver that documentation is present to support the payment and the amount owed is correct

Before making a payment, the town clerk should account for and match up the purchase requisition, purchase order, and receiving report with the vendor invoice and submit to the mayor for review and approval.

6. **Need to Assess Capabilities of In-House Accounting System** - The mayor and town clerk should, with assistance from the software vendor and/or the contract accountant, assess the full capabilities of the in-house computerized accounting system. The system is



severely underused as it is only being used to write/pay checks. Expanding the usage of the town's in-house system may require additional costs, including training; however, the town may save time and costs by having the clerks use the system to perform certain bookkeeping services currently contracted out to the accountant.

7. **Need Written Policies and Procedures** - There should be written financial/business policies and procedures that provide employees with a consistent approach to accumulating financial information. Written policies and procedures are necessary to provide a clear understanding of what should be done, how it should be done, who should do it, and when it should be done. Also, written policies and procedures aid in the continuity of operations and for cross-training staff.

We recommend developing and implementing detailed written policies and procedures for the following:

- Nature, extent, and frequency of financial reporting information provided to mayor and board of aldermen
- Preparing, adopting, monitoring, and amending the town's budget
- Investing excess cash, including procedures for ensuring that bank balances and investments are fully secured and that the types of securities pledged by the financial institutions are appropriate
- Receiving, recording, and preparing deposits for cash receipts/collections
- Preparing customer water and sewer bills, including reading water meters
- Enforcing the town's cut-off policy for water and sewer services
- Processing, reviewing, and approving disbursements/expenditures
- Procurement/purchasing process, including how purchases are initiated and approved and checks and balances to ensure compliance with the public bid law
- Monitoring contracts to ensure that services received comply with terms and conditions of the contracts
- Accounting for the business and personal use of cellular phones
- Payroll recordkeeping, including time, attendance, and leave
- Recording, tagging, and safeguarding capital assets, including conducting physical inventories
- Using credit cards (e.g., MasterCard, Wal-Mart), maintaining the detailed receipts, monitoring the monthly statements, and filing expense reports supporting charges
- Travel, including rates for mileage, meals, and lodging, and the filing of standard expense reimbursement reports
- Dispensing and accounting for gasoline and diesel inventories
- Storing, issuing, and accounting for traffic tickets/citations

- Recording, maintaining, inventorying, and disposing of confiscated items (evidence room/locker)
  - Keeping public records, including e-mail communications
  - Backing up and storing computer files and general controls for the computer system
8. **Need to Resolve Audit Findings on Timely Basis** - The mayor should take immediate action to address all internal control and compliance findings of the town (also see Attachment II) and should provide a monthly status report to the board until all findings are satisfactorily resolved.

### **Noncompliance With Local Government Budget Act**

The 2007 budget did not include a budget message and the estimated beginning and ending fund balances as required by state law. R.S. 39:1305 (C) requires, among other things, that the budget include the estimated beginning and ending fund balances and a budget message signed by the budget preparer, that provides a summary description of the proposed financial plan, policies, objectives, assumptions, budgetary basis, and a discussion of the most important features.

Recommendation: In the future, the town should strictly comply with all requirements of the Local Government Budget Act. We also suggest that an overall financial status of the town be included in the budget message that includes the current financial status, the short-term outlook, and the long-term trends. The emphasis on this analysis should be understandability of the financial status and issues, not necessarily on exact numbers and detail. This analysis should be provided in written form, early in the budget process, so a broad financial framework is available to management of the town.

### **Bank Accounts**

The town clerk performs a variety of duties relating to cash receipts/disbursements and payroll, including reconciling the monthly bank statements, which are incompatible for a proper system of checks and balances.

Recommendation: To strengthen controls over cash, the mayor should receive all bank statements directly (unopened) from the bank and should review them timely to ensure that deposits appear reasonable and that unusual disbursements, if any, are identified and resolved. After the mayor's review, the bank statements should be given to the clerk to prepare the bank reconciliations.

### **Dedicated Sales Taxes**

The town used monies from the Sales Tax Fund for other than its dedicated purposes. Sales taxes dedicated for use in operating the police department and for maintaining streets and street lights were used to pay certain other bills of the General Fund. R.S. 39:704 states, “The proceeds of any special tax shall constitute a trust fund to be used exclusively for the objects and purposes for which the tax was levied. The records of the taxing authority shall clearly reflect the objects and purposes for which the proceeds of the tax are used.”

The town clerk informed us that certain bills of the General Fund are paid out of the Sales Tax Fund when the General Fund experiences cash flow problems. The clerk also told us that these other payments out of the Sales Tax Fund represent indirect reimbursements to the General Fund for paying the salaries of the police department. We could not determine the total amount of General Fund monies owed to or due from the Sales Tax Fund because there has been no analysis or reconciliation prepared.

Recommendation: The town should immediately cease spending sales tax monies for other than dedicated purposes. The town clerk should (1) determine the total monies paid out of the Sales Tax Fund on-behalf of the General Fund; (2) determine the total monies paid out of the General Fund on-behalf of the Sales Tax Fund; and (3) compare the totals and repay the difference to the appropriate fund.

### **Water and Sewer Accounts**

**Customer Meter Deposits** - The customer meter deposit bank account balances and customer deposit liability account balance in the accounting system (general ledger) are not reconciled monthly with the detailed listing of customers’ meter deposits (subsidiary ledger).

Also, the town does not maintain a complete listing of customer meter deposits. Meter deposits received by the town in prior years were recorded on manual cards and have not been transferred and input into the respective customer accounts in the computerized utility system.

Recommendation: All customer meter deposits should be entered in the computer system. The town clerk or contract accountant should reconcile the customer meter deposit subsidiary ledger balance to the related general ledger bank account balances and customer deposit liability on a monthly basis. Any differences should be investigated and resolved in a timely manner.

**Adjustments to Water/Sewer Bills** - Adjustments made to customer bills are not always reviewed and approved by the mayor.

Recommendation: Without exception, any adjustment made to customer water/sewer bills should be reviewed and approved by the mayor and documented in writing before the adjustment is made. Furthermore, a listing of all billing adjustments made during the month should be provided to the board for review at its regular meeting.

## Payroll

### Controls Over Payroll Need Improvement

1. Town employees do not prepare and submit time sheets/reports documenting hours worked and leave taken. As a result, the town does not maintain formal records to support payments made to employees or to support vacation and sick leave used by employees.

Recommendation: The town should require all employees to document, on a standardized time sheet/report, hours worked and leave (e.g., vacation and sick) taken each pay period. Employees should sign their time sheet and submit to their supervisor for review and approval. Supervisors should provide the approved time sheets to the clerk who is responsible for entering the data in the computer system, processing the payroll, and maintaining accurate leave records on employees.

2. A review of all changes made (adding/deleting employees, increasing/decreasing pay rates, et cetera) in the payroll system for a specific period of time is not performed.

Recommendation: For a proper system of checks and balances, we suggest that the mayor review all changes made to payroll and compare to written authorization.

## Gasoline and Diesel

There is no documentation prepared of the usage of gasoline and diesel from the town's fuel tanks.

Recommendation: The town should ensure that all tank meters are operational and require the preparation of a daily log that documents the (1) date; (2) number of gallons pumped from each tank; (3) tank meter readings; (4) vehicle/equipment odometer readings (when applicable); and (5) signature of persons dispensing the fuel. A monthly summary report should be prepared by vehicle/equipment that includes, at a minimum, the number of gallons received, miles traveled, and miles per gallon. We recommend that the summary report be provided to the board for review at its regular meeting.

## Credit Cards

The town needs to strengthen controls over the use of credit cards (e.g., MasterCard, Wal-Mart). We determined that the detailed/itemized receipts for charges are not maintained and attached to the monthly statements and the business purposes for the charges were not documented.

Recommendation: The board should review the need for credit cards and adopt a policy addressing their use. Detailed/itemized receipts of all charges should be turned in to the town clerk with the business purpose clearly documented. For meal charges, the names of individuals participating should also be documented.

### **Cellular Phones**

The town needs to implement controls over cellular phones. The town provides a phone to the mayor and to the water supervisor and pays a \$200 monthly allowance to the police chief as compensation for usage of his personal cell phone for town business.

There were no written certifications from the mayor or water supervisor that all calls made were for town business and there was no documentation as to the basis for the \$200 monthly allowance paid to the police chief.

Recommendation: The town should:

1. Issue a phone to the police chief and discontinue paying the \$200 monthly allowance
2. Require the mayor, police chief, and water supervisor to review their monthly phone bill and identify personal calls made or received and provide a written certification that they identified all personal calls
3. Require that the clerk bill the mayor, police chief, and water supervisor at a standard rate for each minute for all personal calls

### **Traffic Tickets**

**Accounting for Tickets** - The town is not accounting for the numerical sequence of traffic tickets. Without an accounting, there is no way to determine whether tickets were issued, lost, or voided.

Recommendation: The town should require ticket books to be issued to police officers only after the previously issued book has been accounted for and all issued citations have been received from the police officer. The numerical sequence of tickets/citations should be accounted for on a monthly basis.

**Dismissing/Reducing Tickets** - Contrary to state law (R.S. 32:398.2.B), not all traffic citations are disposed of by trial or acceptance of a plea in open court. Although the mayor conducts court each month, he is also exercising his judicial authority “outside” of mayor’s court when he dismisses or reduces fines on days other than the court date.

Recommendation: The mayor should comply with state law and only exercise his judicial powers and authority in open court.

**Reporting Traffic Violations** - The town is not reporting traffic violations to the Louisiana Department of Public Safety (DPS) as required by law. R.S. 32:393C(1)(b) requires the town to report all traffic violations, except parking violations, to DPS not later than 30 days after the date of such person’s conviction and sentencing or the final disposition of the case.

Recommendation: The town should immediately comply with state law and report all traffic violations as required by DPS.

### **Public Bids and Quotes**

**Recurring Purchases and Large Purchases** - Although we did not find violations of the public bid law, obtaining quotes when purchasing recurring or large items ensures that goods and services are obtained at the most favorable prices.

Recommendation:

1. Price quotes should be obtained when purchasing recurring or large items (e.g., materials and supplies) to ensure that the most favorable prices are obtained.  
  
We suggest that quotes be documented as part of the approval process before the purchase is made for recurring or large purchases. The town should be aware of Louisiana's bid law requirements when purchasing materials and supplies. Louisiana's bid law requires competitive bids for all purchases of materials and supplies exceeding \$20,000. In addition, the public bid law requires that purchases between \$10,000 and \$20,000 be made by obtaining at least three telephone or facsimile quotations. The Louisiana Attorney General (A.G.) has opined in A.G. Opinion No. 02-122 that recurring purchases (individual purchases not exceeding the dollar thresholds of the bid law), but in the aggregate exceed the bid limit must be let for public bid.
2. Review annually all items purchased frequently and consider requesting bids for such items to ensure the lowest possible prices and to ensure compliance with the bid law. Also, this would be a more efficient way to purchase these items as price checks or quotes would not be necessary each time an order is placed.
3. Purchase orders should include a "check-off" for items requiring bids or fax/telephone quotes as a control to ensure compliance with the bid law.

**Bid Documentation** - For each item that is publicly bid, documentation should be maintained in an orderly fashion in a bid folder that includes, at a minimum, the following:

- Bid notification letters that include the contract, plans, and specifications
- Documentation that bids were properly advertised
- Bid opening documentation including tabulation sheet and indication of selected bid
- Copies of town minutes
- Notification to purchasing department of bids accepted to ensure that purchase requisitions/purchase orders agree to bid amounts

### **Contracts**

Written agreements for contracted accounting and legal services could not be located for our review.

Recommendation: We suggest that all agreements for services (professional or otherwise) with third parties be in the form of a written contract and that all contracts be maintained in a centralized location in the business office.

### **Capital Assets**

The detailed listing of the town's capital assets (e.g., property and equipment) could not be located for our review. However, we were informed that the listing is not periodically updated, assets are not tagged for identification and control purposes, and a physical inventory of assets is not periodically conducted.

Recommendation: The listing of capital assets should be located and updated for any assets purchased or disposed during the year. The mayor and clerk should ensure that all assets are tagged and appropriately cross-referenced to the listing, and periodic physical inventories are taken and that differences, if any, are adequately resolved.

### **Evidence Room**

The town's police department should strengthen controls over confiscated evidence (e.g., weapons and drugs). Failure to maintain adequate control over evidence increases the risk that evidence will be lost, stolen, or disposed of improperly.

Recommendation: We recommend that the police chief perform a complete inventory of confiscated evidence and compare to the written records maintained on file. Thereafter, an inventory should be performed on a periodic basis. Any differences should be investigated and resolved immediately.

### **Computer Backup**

Computer system back-up files are not adequately secured as they reside on the computer hard drive. In the event of a computer hardware failure or a disaster (e.g., fire or flood), financial records of the town could be destroyed and not be readily reconstructed/replaced.

Recommendation: We suggest that the back-up files be copied to a removable disk/tape each day and placed in the fireproof vault.

**Disaster Recovery and Business Continuity**

We recommend that a written disaster recovery/business continuity plan be prepared and tested/revised annually. Having a written plan is a good business practice as it will provide the steps to be performed to continue town operations in the event of a disaster.



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## Summary of Audit Findings

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## SUMMARY OF AUDIT FINDINGS

The following represents a summary of the audit findings reported in the December 31, 2005, audited financial statements (reported by the town's independent auditor) and the disposition of those findings based on our inquiries and general observations. Management's response is included in Appendix A.

June 30, 2005, Audit Findings	Disposition as of December 20, 2007
1. <b>Ad Valorem Taxes Dedicated for Debt Service</b> - The town does not deposit ad valorem taxes dedicated for debt service into a separate fund. Also, the town used these dedicated tax monies for other purposes and has not made repayment.	<u>Partially Resolved.</u> A separate fund has been established for deposits; however, repayment has not been made.
2. <b>Computer Backup</b> - The town did not perform backups of its utility billing system on a routine basis.	<u>Resolved.</u>
3. <b>Budgetary Control</b> - The town did not amend its 2005 budgets for the General Fund and Sales Tax Fund when actual expenditures exceeded budgeted amounts by more than 5%, as required by state law.	<u>Not Determinable.</u> Because the town's accounting records are not up-to date, we were unable to determine whether the 2006 and 2007 budgets for the General Fund and Sales Tax Fund should have been amended.
4. <b>Utility Accounts Receivable and Customer Meter Deposits</b> - The town did not (1) reconcile the accounts receivable trial balance listing and customer meter deposit listing to the respective general ledger accounts on a monthly basis; (2) maintain sufficient bank account balances that correspond to the customer deposit amounts; and (3) require the work of the assistant clerk to be reviewed and approved by the town clerk.	<u>Unresolved.</u>
5. <b>Traffic Tickets</b> - The work of the assistant clerk is not reviewed and approved by the town clerk.	<u>Unresolved.</u>
6. <b>Audit Report</b> - The town's audit report was not submitted timely in accordance with the state audit law.	<u>Unresolved.</u>
7. <b>Loans</b> - Loans were made to the police chief (former) in violation of Article 7, Section 14 of the Louisiana Constitution and the Code of Ethics Law for Public Officials and Public Employees. The unpaid loan balance at December 31, 2005, was \$3,493.	<u>Unresolved.</u> The mayor informed us that the loan has not been repaid and that he will turn this matter over to the town attorney for collection.
8. <b>USDA Rural Development Debt</b> - The town did not fund the required reserves in accordance with the debt agreements.	<u>Resolved.</u>

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## Management's Response

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KEITH CHANLER  
Mayor

LYNN HICKS  
JUDY MAXWELL  
Clerks

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## TOWN OF COTTON VALLEY

OFFICE OF THE MAYOR  
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Terry C. Brown  
Chief of Police

Aldermen  
Charlene Lewis  
Lynn Guillot  
Comerdis Phillips  
Curtis G. Walker  
Chris Ridge

December 28, 2007

Office of Legislative Auditor  
State of Louisiana  
Baton Rouge, Louisiana 70804-9397

Joy S. Irwin, CPA  
Director of Advisory Services

Re: Response to Advisory Draft

It is our intent to follow the recommendations provided by you and we have already begun making improvements to ensure the 2007 audit report will be completed on time. Following is an updated list of the actions we have taken since meeting with the advisory staff on October 8-11, 2007:

- Page 1, #3 - The clerk has spoken with Mr. Travis Morehart about a tentative date for starting and completing the 2006 audit. He will send a letter of engagement the first week of January, 2008.
- Page 2, Lack of Financial Management - A budget for 2008 has been prepared, proposed to the council and adopted by the council. This budget has actual estimated revenues and expenditures. It will be reviewed monthly and amended, as needed to reflect current realities.
- Page 3, #4 - The Town has strived to pay all past due bills that were carried over from 2005 and 2006. At this time, we are current on all our accounts and have paid "in full" all old outstanding debts.
- Page 3, #5 - The Town has implemented a purchase order system and all invoices are approved and initialed by the Mayor. Also, the manual stamp has been removed and all checks have "live" signatures.
- Page 4, #6 - The Town renewed their 2008 maintenance contract with CSDC and will receive 15 hours of telephone support. The Clerk will use this service to update and maintain bookkeeping records.



Page -2-

Page 6, Dedicated Sales Taxes - The Clerk has determined the monies paid out of Sales Tax on behalf of the General Fund, and General Fund monies paid out on behalf of the Sales Tax fund. After comparing totals, it has been concluded that Sales Tax owes General Fund and these monies will be repaid.

Page 6, Water & Sewer Accts - The water clerk is researching and completing a list of customer meter deposits. She is entering these deposits in the computerized utility system.

Page 7, Gasoline & Diesel - A fuel log is being kept by the Utility and Police department. Each employee documents vehicle number, gallons, odometer and date. These will be summarized at the end of each month and provided to the board for review.

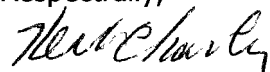
Page 8, Credit Cards - Use of credit cards is minimal and items to be purchased are pre-approved by the Mayor. All receipts are attached and documented.

Page 8, Traffic Tickets - The Town has a "Ticket Tracker" system by CSDC to account for tickets received. The Clerk of Court is able to run a numerical listing of all tickets entered and account for any that may not be received. Also, the Mayor will not reduce or dismiss any tickets, except in Mayor's Court.

I would also like to include that the Ad Valorem taxes dedicated for Debt service is being repaid. The amount is not "in full" at this time, but the Town is working toward resolving this matter. In other 2005 audit findings, the outstanding loan made to the former police chief has been turned over to our City Attorney for collection. USDA - The Town has monies automatically deposited into all reserve accounts in accordance with the debt agreements. These statements are sent to USDA monthly.

In conclusion, we appreciate all recommendations made by the advisory staff and look forward to ensuring that the Town of Cotton Valley is in compliance as required by Louisiana Law. We now feel certain that we will have these reports into your office by the required dates.

Respectfully,

A handwritten signature in black ink, appearing to read "Keith Chanler", written in a cursive style.

Mayor, Keith Chanler